

**Second Quarter Report
Fiscal 2007**





Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") includes a review of the financial condition of Mitec Telecom Inc. ("Mitec" or the "Corporation") and a review of operations for each of Mitec's operating segments for the 3-month and 6-month periods ended October 31, 2006 (second quarter fiscal 2007).

This MD&A is intended to help the reader understand and assess the significant trends, risks and uncertainties related to the results of operations for each business segment. It should be read in conjunction with the audited consolidated financial statements dated April 30, 2006. Mitec's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts in this MD&A are in Canadian dollars unless otherwise indicated and considers information available until December 7, 2006.

FORWARD-LOOKING STATEMENTS

In the interest of providing shareholders and potential investors with information regarding Mitec, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking and are subject to the risks, uncertainties and other important factors that could cause the Corporation's actual performance to differ materially from that expressed in or implied by such statements.

Such factors include, but are not limited to: the going concern uncertainty; the impact of general economic conditions; industry conditions, including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian standard setters. Some of these items are further discussed in the Risk Factors section of our Annual Information Form dated July 28, 2006.

Although the Corporation believes that the expectations conveyed by the forward-looking statements are based upon information available on the date that such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

APPROVAL OF QUARTERLY FINANCIAL STATEMENTS

Prior to publication, the Board of Directors, on the recommendation of the audit committee, approved Mitec Telecom's financial statements.

NOTICE FROM MANAGEMENT

The interim financial statements have not been reviewed by the Corporation's external auditors.

OVERVIEW

Mitec Telecom Inc. was incorporated in 1972. Its activities, which consist of the design and manufacture of telecommunication products, are divided into two core business segments: Telecommunications (“Telecom”) and Satellite Communications (“Satcom”).

The Telecom segment consists of designing, manufacturing and selling state-of-the-art radio-frequency (“RF”) conditioning and amplifier subsystems for cellular base stations. These components are distributed worldwide and are integrated into high performing wireless communication infrastructures that enable voice, data/Internet and ultimately multimedia communications.

The Satcom segment generates revenues from the design, manufacture and sale of RF components and subsystems for Satellite Earth Stations used by direct-to-home TV service providers’ very small aperture terminal networks (VSAT).

Mitec’s headquarters are in Pointe-Claire, Canada and the Corporation has other operations in Suzhou (China) and Reno (United States). As at October 31, 2006, the Corporation’s global workforce stood at 375 employees.

MAJOR EVENTS

On August 15, 2006, the Corporation announced the appointment of Daniel Piergentili as its new President and Chief Executive Officer. Mr. Piergentili was also appointed to the Board of Directors. The Corporation announced as well its intention to file a short form Rights Offering Prospectus.

On August 28, 2006, the Corporation announced the filing of a final short form prospectus in each of the provinces of Canada in connection with rights offering to shareholders of record on September 8, 2006. Details of the rights offering, the stand-by agreement and the private placement were also provided.

On October 6, 2006, Mitec announced gross proceeds of \$4.3 million from the rights offering and the issuance of 43,479,181 common shares. Since gross proceeds were in excess of \$3.5 million, the stand-by agreements were not called upon.

On October 20, 2006, the Corporation announced the closing of its private placement and the issuance of 35,000,000 common shares and 8,750,000 warrants for a cash consideration of \$3.5 million. Mitec also announced that its Vice President of Finance and Chief Finance Officer, Stefano Bazzocchi has resigned and that, effective the same day, Bruno Dumais had been appointed as Vice President of Finance and Chief Financial Officer of the Corporation.

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table presents selected financial information for the first quarter of the current and past fiscal years:

Periods ended October 31 <i>(Amounts in thousands except per share data)</i>	Q2 FY2007	Q2 FY2006	YTD FY2007	YTD FY2006
	\$	\$	\$	\$
Sales	8,838	9,518	17,514	22,810
Gross profit	1,780	635	1,968	2,295
SG&A	2,078	2,897	4,101	5,464
R&D	1,793	1,694	3,815	3,537
Amortization of intangible assets	398	525	895	1,050
Financing Expenses	132	311	300	841
Services paid by the issuance of stock options	368	103	432	103
Loss from continuing operations	(4,255)	(4,788)	(8,857)	(9,967)
Net loss	(4,255)	(3,541)	(8,676)	(9,997)
Loss per share – basic and diluted:				
- Continuing operations	(0.04)	(0.06)	(0.10)	(0.13)
- Net loss	(0.04)	(0.06)	(0.10)	(0.13)
Total assets			38,769	52,088
Long-term debt			708	2,264
Capital leases			—	12
Cash and temporary investments			3,985	17,205

RESULTS OF OPERATIONS

Sales

For the three-month period ended October 31, 2006, consolidated sales reached \$8.8 million down 7% from the second quarter of the previous year. The decline in the Corporation's sales is attributable to decreased shipments from the Telecom segment, down \$0.8 million or 21% during the second quarter with the same period from the previous year. This is mainly due to the declining demand for goods from previous platforms combined with delays to reach the full scale manufacturing level of newly developed technologies. The Satcom segment, which contributed 64% of total revenues, increased by \$1.0 million to \$5.6 million, or 22% compared to the second quarter of fiscal 2006, due mostly to a larger penetration into the VSAT market.

<i>(thousands of dollars)</i>	Q2 FY2007	Q1 FY2007	Q4 FY2006	Q3 FY2006	Q2 FY2006
Telecom	3,206	4,071	5,552	6,084	4,544
% of total revenues	36.3%	46.9%	53.6%	53.6%	47.7%
Satcom	5,632	4,605	4,798	5,266	4,974
% of total revenues	63.7%	53.1%	46.4%	46.4%	53.3%

For the six-month period ended October 31, 2006, consolidated sales stood at \$17.5 million, a decline of 23% from the \$22.8 million in sales from the same period of the previous fiscal year. The reduction stems primarily from the Wireless segment where RF components and Power Amplifiers (PAs) remain at the early stages of development and are facing various issues prior to reach their full potential on the market. These negative results were partially offset by an increase in sales in the Satcom segment following the launch of new products.

Geographical Distribution Revenue

	North America	Europe	Asia	Other
Q2 FY2007	55%	14%	24%	7%
Q2 FY2006	50%	23%	20%	7%
YTD FY2007	46%	20%	26%	7%
YTD FY2006	43%	34%	17%	6%

The increase of Satcom sales in United States impacted the sales per geographic location. The change in the geographic distribution of sales compared to the same period last fiscal year reflects the impact of \$2.3 million revenue attributable to the sale of excess inventories in Europe.

Gross profit

Gross profit for the second quarter of fiscal 2007 increased by \$1.2 million from \$0.6 million in the second quarter of fiscal 2006 to \$1.8 million. This increase was a result of the exit from the sales of some products carrying negative margins.

<i>(thousands of dollars)</i>	Q2 FY2007	Q1 FY2007	Q4 FY2006	Q3 FY2006	Q2 FY2006
Telecom	(27)	(930)	69	274	(825)
% of Telecom sales	0.0%	(22.8)%	1.2%	4.5%	(18.2)%
Satcom	1,807	1,118	1,176	1,532	1,460
% of Satcom sales	32.1%	24.3%	24.5%	29.1%	29.3%

Gross profit in the Telecom segment increased \$0.9 million from negative \$0.9 million for the same period last year to almost \$0.0 million in fiscal 2007. This is a result of lower sales level in PAs and new technologies in the RF conditioning equipment, which were carrying low gross margins. For the six-month period, the negative 13% gross profit, or negative \$0.9 million, remained comparable to the negative \$0.6 million from the same period last year.

Satcom gross profit increased by \$0.7 million from \$1.2 million in the second quarter of fiscal 2006 to \$1.8 million in the second quarter of fiscal 2007. Gross margin increased from 29.3% to 32.1% due mainly to a more favourable product mix. For the six-month period, gross profit remained stable at \$2.9 million, or 28.5% compared to the same amount, \$2.9 million or 29.3%, from the previous year.

Research and Development Expenses

Research and development expenses (R&D) net of investment tax credits for the second quarter of fiscal 2007 increased 6% from \$1.7 million in the second quarter of fiscal 2006 to \$1.8 million. The increase is attributable to continued investments required to qualify certain new products as well as increased costs related to the customization of products that meet customers' changing specifications. For the six-month period ended October 31, 2006, total R&D expenses reached \$3.8 million representing 21.7% of the sales compared to \$3.5 million or 15.5% of the sales for the same period of the previous year.

Selling and Administrative Expenses

The Corporation's selling and administrative expenses for the second quarter in fiscal 2007 decreased 28% from \$2.9 million to \$2.1 million. The expected decrease was a consequence of the restructuring program. For the six-month period, those expenses totalled \$4.1 million compared to \$5.5 million from the previous year, down 25% following the restructuring plan and the cost-containment program.

Financial Expenses

Financial expenses were \$0.1 million for the second quarter of fiscal 2007 as compared to \$0.5 million in the second quarter of fiscal 2006. This decrease is as a result of lower foreign exchange expenses incurred in the current quarter and fewer short-term financial expenses following the reimbursement of the bank loan. These same reasons explain the decrease for the six-month period where the expenses decreased \$0.5 million or 64%.

Amortization of Intangible Assets

The amortization of intangible assets remained stable at \$0.4 million in the second quarter of fiscal 2007 and 2006.

Stock-based compensation

The amount of the expense recorded this quarter was \$0.4 million compared to \$0.1 million in 2006. The increase is attributable to two separate grants of stock options during the period combined with the vesting of significant options in 2006 due to the departure of certain executives.

Other Expenses

The Corporation has recorded \$1.3 million as restructuring costs in the current quarter as compared to an expense of \$0.1 million for the same period last year. The costs are associated with the departures of several executives and employees and include severances and related benefits. For the six-month period ended on October 31, 2006, the restructuring expenses of \$1.3 million can be compared with the \$1.1 million recognized for the same period the previous year. This increase is attributed to lease termination costs regarding the New Jersey real estate as well as termination payments related to certain executives.

Loss from continuing operations

The loss from continuing operations for the first quarter of fiscal 2007 was \$4.3 million, or \$0.04 per share, as compared to \$4.8 million, or \$0.10 per share, for the same quarter of fiscal 2006. The decrease in the loss from continuing operations is attributable to the same elements noted

above. The increase of the weighted-average outstanding common shares impacted the loss per share for the current fiscal year.

Discontinued Operations

Discontinued operations resulted in a loss of \$8,000 resulting from the liquidation of the Swedish entities. The Corporation is not carrying any more operations in Sweden further to the sale of its subsidiaries.

Net Loss

The net loss for the second quarter of fiscal 2007 was \$4.2 million, or \$0.04 per share, as compared to \$4.8 million, or \$0.10 per share, for the second quarter of fiscal 2006. The decrease in the net loss is a result of better gross profits generated from the operations combined with initial impacts from the restructuring program. The decrease in the loss for the six-month period ended October 31, 2006 from \$9.9 million for the same period last fiscal year to \$8.7 million is attributable to the same elements noted above.

Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

Mitec calculates EBITDA from continuing operations as follows:

(Amounts in thousands of dollars)	Q2 FY2007	Q1 FY2007	Q4 FY2006	Q3 FY2006	Q2 FY2006
Loss from continuing operations	(4,255)	(4,421)	(4,298)	(2,777)	(4,788)
Income taxes	(67)	(114)	(149)	(147)	(149)
Amortization and loss on write-down of property, plant and equipment, intangible assets and deferred charges	1,017	1,114	1,682	1,276	1,319
Interest	35	64	44	36	77
EBITDA from continuing operations	(3,270)	(3,357)	(2,721)	(1,612)	(3,541)
Effect of restructuring expenses	1,342	—	231	—	80
EBITDA from continuing operations adjusted for restructuring expenses	(1,928)	(3,357)	(2,490)	(1,612)	(3,461)

GOING CONCERN UNCERTAINTY

The accompanying consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation has a history of losses over the past five years and currently does not have the necessary financing in place to support continuing losses. Historically, the Corporation has financed its operating and capital requirements mainly through issuances of debt and equity. The Corporation's continuation as a going concern is dependant upon, amongst other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations, the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is significant uncertainty about the Corporation's ability to continue as a going concern.

The consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

Management's plans with respect to the uncertainties described are as follows:

1. Continue negotiations with financial institutions to obtain additional financing;
2. Approach potential investors to secure additional financing;
3. Investigate a range of alternatives for its Telecom and Satcom Business Units which could include asset or business dispositions, and;
4. Rationalize operations to reduce expenses.

During the second quarter ended October 31, 2006, the following transactions, aimed at addressing the uncertainties described above, occurred:

- On October 8, 2006, the Corporation closed its rights offering and issued 43,479,181 common shares in consideration of net cash proceeds of \$4.2 million;
- On October 20, 2006, the Corporation closed a private placement and issued 35,000,000 common shares and 8,750,000 warrants in consideration of net cash proceeds of \$3.3 million.

Management believes that with the above plans and the continued support of the Corporation's current shareholders and customers, it will be able to continue operating as a going concern. There can, however, be no assurance that such plans will be sufficient to continue to operate as a going concern.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activity Cash Flows

<i>(Amounts in thousands except as otherwise indicated)</i>	Q2 FY2007	Q2 FY2006	YTD FY2007	YTD FY2006
	\$	\$	\$	\$
Cash flow from operations before working capital changes	(2,870)	(3,341)	(6,113)	(6,582)
Net change in non-cash working capital balances related to continuing operations	(75)	640	1,706	3,613
Cash flow used in operating activities	(2,945)	(2,701)	(4,407)	(2,969)
Working capital ratio			2.2	2.1

Cash flow used in operating activities before working capital changes decreased \$0.5 million to \$2.8 million for the current quarter compared to the previous one further to gross margin improvements for both segments. Cash used for operating activities before working capital totalled \$6.1 million since the beginning of the year compared to \$6.6 million for the previous year, most of the difference being related to the various reasons described above.

The net change in non-cash working capital shows a decrease of \$1.9 million from a cash inflow of \$3.6 million for the first half of fiscal 2006 to a cash inflow of \$1.7 million for the first half of fiscal 2007. This is mainly attributable to a significant reduction in the accounts payable balance and the increase in the inventories. Net changes from the non-cash working capital balance for the three-month period ended October 31, 2006 showed a negative impact of \$0.1 million compared to a positive impact of \$0.6 million for the same period in the previous fiscal year.

Investing Activity Cash Flows

Cash flow provided in investing activities was \$0.5 million in the second quarter of fiscal 2007 compared to \$6.0 million in the second quarter of fiscal 2006, which relates mostly to the sales of short-term investments and offset by some acquisitions of capital expenditures. For the six-month period ended October 31, 2006, investing activities provided for \$9.9 million compared to \$5.9 million further the sale of short-term investments.

Financing Activity Cash Flows

Financing activities resulted in a net cash inflow \$7.3 million, reflecting net proceeds of the rights offering and the private placement, compared to an outflow of \$0.8 million for the same period in the past fiscal year. Impact for the first half of the current fiscal year has been an inflow of \$1.1 million compared to an outflow of \$0.5 million for the same period of the past fiscal year mainly driven by the reimbursement of bank indebtedness by the Corporation and the issuance of common shares and warrants.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Corporation's contractual obligations are essentially the same as those disclosed in the fiscal 2006 Management's Discussion and Analysis.

FINANCIAL INSTRUMENTS

The Corporation's financial instruments strategy is the same as the one disclosed in the fiscal 2006 Management's Discussion and Analysis.

OFF-BALANCE SHEET ITEMS

The Corporation's off-balance sheet items are fundamentally the same as those disclosed in the fiscal 2006 Management's Discussion and Analysis.

CHANGE IN ACCOUNTING POLICIES

Other than those disclosed in its fiscal 2006 Management Discussion and Analysis, the Corporation has not implemented additional changes in accounting policies.

FUTURE CHANGES IN ACCOUNTING POLICIES

There are no changes to accounting policies that the Corporation is currently considering that would have a material impact on Mitec.

SUBSEQUENT EVENTS

On November 20, 2006, the Corporation announced the replacement of Marc Desjardins by Martin Caron as General Manager for the Chinese operations further to Mr. Desjardins' resignation.

SIGNIFICANT ACCOUNTING ESTIMATES AND PROVISIONS

The preparation of financial statements in accordance with generally accepted Canadian accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The reported amounts and note disclosures in the consolidated financial statements are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the consolidated financial and such differences could be material. Details of our significant accounting estimates and provisions were reported in the fiscal 2006 Management's Discussion and Analysis. They continued to apply for the quarter ended October 31, 2006.

RELATED PARTY TRANSACTIONS

The Corporation's related party transactions are essentially the same as those described in the fiscal 2006 Management's Discussion and Analysis.

PROPOSED TRANSACTIONS

Mitec continually reviews opportunities for mergers and acquisitions that could increase shareholder value. At the present time, the Corporation has not entered into any signed definitive agreements involving the acquisition or disposition by the Corporation of assets or businesses.

OUTLOOK

For the current fiscal year, Mitec will continue to enhance its product and technology portfolio and will pursue further diversification of its customer and revenue base, primarily through the penetration of operator-centric markets worldwide. The results of rights offering and the private placement will enable the Corporation to complete its strategic products development which will allow the Corporation to focus its business on the existing and new opportunities emanating from the Telecommunication and the Satellite Communication Industries.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of December 7, 2006. Updated information on Mitec, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

As of October 31 2006, a total of 154,884,444 common shares and 8,750,000 warrants were issued and outstanding, as well as 6,720,450 stock options.

MITEC TELECOM INC.
INTERIM CONSOLIDATED BALANCE SHEETS *(note 1)*

(In thousands of Canadian dollars)

Unaudited

	As at October 31, 2006 \$	As at April 30, 2006 \$
ASSETS		
Current		
Cash and cash equivalents	8,251	1,468
Short-term investments	—	10,089
Trade receivables	7,145	10,849
Other receivables	598	632
Income tax recoverable	968	1,075
Inventories	8,563	7,546
Prepaid expenses and other	604	491
Current assets related to discontinued operations <i>(note 3)</i>	—	278
Total current assets	26,129	32,428
Property, plant and equipment	7,967	8,564
Intangible assets	2,976	3,851
Deferred charges	1,697	2,129
	38,769	46,972
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	—	6,016
Accounts payable and accrued liabilities	10,903	11,912
Current portion of long-term debt <i>(note 5)</i>	847	953
Current liabilities related to discontinued operations <i>(note 3)</i>	—	63
Total current liabilities	11,750	18,944
Long-term debt <i>(note 5)</i>	708	958
	12,458	19,902
Shareholders' equity		
Common shares <i>(note 6)</i>	123,808	116,357
Contributed surplus <i>(note 6)</i>	8,558	8,126
Deficit	(104,364)	(95,680)
Cumulative translation adjustment	(1,691)	(1,733)
Total shareholders' equity	26,311	27,070
	38,769	46,972

MITEC TELECOM INC.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT *(note 1)*

(In thousands of Canadian dollars, except per share data and number of shares)

Unaudited

	For the three months ended		For the six months ended	
	October 31,		October 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Sales <i>(note 4)</i>	8,838	9,518	17,514	22,810
Cost of sales	7,058	8,883	15,546	20,515
Gross profit	1,780	635	1,968	2,295
Expenses				
Selling and administrative	2,078	2,897	4,101	6,312
Research and development	1,793	1,694	3,815	3,537
Amortization of intangible assets	398	525	895	1,050
Financial expenses <i>(note 9)</i>	132	311	300	841
Interest income	(9)	(38)	(60)	(170)
Stock-based compensation <i>(note 6)</i>	368	103	432	672
Restructuring and other expenses	1,342	80	1,342	318
	6,102	5,572	10,825	12,560
Loss from continuing operations before income taxes	(4,322)	(4,937)	(8,857)	(10,265)
Income tax recovery	(67)	(149)	(181)	(298)
Loss from continuing operations	(4,255)	(4,788)	(8,676)	(9,967)
Loss from discontinued operations <i>(note 3)</i>	—	53	(8)	(30)
Net loss for the period	(4,255)	(4,735)	(8,684)	(9,997)
Deficit, beginning of the period	(100,109)	(83,779)	(95,680)	(78,517)
Deficit, end of the period	(104,364)	(88,514)	(104,364)	(88,514)
Basic and diluted loss per common share from continuing operations	(0.04)	(0.06)	(0.10)	(0.13)
Basic and diluted loss per common share from discontinued operations	(0.00)	(0.00)	(0.00)	(0.00)
Basic and diluted loss per common share	(0.04)	(0.06)	(0.10)	(0.13)
Weighted average number of outstanding common shares	95,683,469	76,405,263	86,044,366	76,405,263

See accompanying notes

MITEC TELECOM INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (note 1)

(In thousands of Canadian dollars)

Unaudited

	For the three months ended		For the six months ended	
	2006	October 31, 2005	2006	October 31, 2005
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Loss from continuing operations	(4,255)	(4,788)	(8,676)	(9,967)
Add items not affecting cash				
Amortization of property, plant and equipment, intangible assets and deferred charges	1,017	1,319	2,129	2,688
Loss on disposal of property, plant and equipment	—	25	2	25
Stock-based compensation	368	103	432	672
	(2,870)	(3,341)	(6,113)	(6,582)
Changes in non-cash working capital balances related to continuing operations (note 7)	(75)	640	1,706	3,613
Cash flows used in operating activities	(2,945)	(2,701)	(4,407)	(2,969)
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(99)	(372)	(206)	(459)
Proceeds on disposal of property, plant and equipment	4	252	4	265
Purchases of short-term investments	—	(6,177)	(597)	(6,177)
Sales of short-term investments	597	12,294	10,686	12,294
Cash flows provided (used) in investing activities	502	5,997	9,887	5,923
FINANCING ACTIVITIES				
Increase in bank indebtedness	—	836	349	1,870
Repayment of bank indebtedness	—	(1,356)	(6,365)	(2,015)
Repayment of long-term debt	(179)	(177)	(356)	(354)
Repayment of obligations under capital lease	—	(11)	—	(30)
Issuance of common shares and warrants (note 6)	7,451	—	7,451	—
Cash flows provided (used) by financing activities	7,272	(708)	1,079	(529)
Effect of exchange rate fluctuations changes on cash and cash equivalents	34	249	260	167
Net increase (decrease) in cash and cash equivalents from continuing operations	4,863	2,837	6,819	2,592
Cash flows used in discontinued activities	—	(236)	(36)	(584)
Cash and cash equivalents, beginning of the period	3,388	4,976	1,468	5,569
Cash and cash equivalents, end of the period	8,251	7,577	8,251	7,577

See accompanying notes

MITEC TELECOM INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2006

(All tabular amounts are in thousands of Canadian dollars, except for share figures, unless otherwise stated)

Unaudited

1. NATURE OF THE BUSINESS AND GOING CONCERN ASSUMPTION

Mitec Telecom Inc. ("Mitec" or the "Corporation") is incorporated under the Canada Business Corporation Act and is a knowledge-based communication equipment provider to the global wireless and satellite telecommunications markets.

The accompanying interim consolidated financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Corporation has a history of losses over the past five years and currently does not have the necessary financing in place to support continuing losses. Historically, the Corporation financed its operating and capital requirements mainly through issuances of debt and equity. The Corporation's continuation as a going concern is dependant upon, amongst other things, attaining a satisfactory revenue level, the support of its customers, a return to profitable operations and the generation of cash from operations, the ability to secure new financing arrangements and new capital. These matters are dependent on a number of items outside of the Corporation's control and there is significant uncertainty about the Corporation's ability to continue as a going concern.

The interim consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these interim consolidated statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses, and the balance sheet classifications used.

Management's plans with respect to the uncertainties described are as follows:

1. Continuing negotiations with financial institutions to obtain additional financing;
2. Approaching potential investors to secure additional financing;
3. Investigating a range of alternatives for its Telecom and Satcom business units, which could include asset or business dispositions; and
4. Rationalizing operations to reduce expenses.

During the second quarter ended October 31, 2006, the following transactions, aimed at addressing the uncertainties described above, occurred:

- On October 8, 2006, the Corporation closed its rights offering and issued 43,479,181 common shares in consideration of net cash proceeds of \$4.2 million;
- On October 20, 2006, the Corporation closed a private placement and issued 35,000,000 common shares and 8,750,000 warrants in consideration of net cash proceeds of \$3.3 million.

Management believes that with the above plans and the continued support of the Corporation's current shareholders and customers, they will be able to continue operating as a going concern. There can, however, be no assurance that such plans will be sufficient to continue to operate as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements on a consistent basis with the Corporation's annual consolidated financial statements for the year ended April 30, 2006. For a full description of accounting policies, please refer to those financial statements. These financial statements do not include all of the disclosures, which are required by generally accepted accounting principles applicable to annual financial statements.

3. DISCONTINUED ACTIVITIES

On May 8, 2003, the Board of Directors approved a plan to divest its Swedish subsidiary, Beve Electronics AB ("Beve"), which comprised of most of its Microwave sector. On August 29, 2003, the Corporation closed the sale of the business of Beve, which comprised most of the Corporation's microwave segment, to Note AB, a Swedish company. The sale did not include the real estate assets, but the Corporation did sign long-term leases with Note AB. As a result of the decision, the revenues and the results of Beve have been reported as discontinued activities in the consolidated statements of operations. On July 1, 2005, the Corporation concluded the sale of its buildings and reached an agreement to sell the remaining portions of the land and as such, the Corporation reclassified its land, building and the related long-term debt related to discontinued operations to short-term at

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3. DISCONTINUED ACTIVITIES (continued)

April 30, 2005. The net proceeds received during the fiscal year ended April 30, 2006, after expenses, were approximately \$3.9 million, which were used to reimburse the outstanding loan associated with these assets. In addition, Mitec has reached an agreement to sell the remaining portions of the land in Sweden for approximately \$0.4 million, the proceeds of which were received during the quarter. Mitec no longer retains any on-going operational commitments in Sweden. During the previous quarter, the Corporation sold its Swedish entities for net proceeds of \$7,000.

	For the three months ended		For the six months ended	
	October 31,		October 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Loss of discontinued activities	—	53	(8)	(30)

4. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK

The Corporation is exposed to credit-related losses in the event of non-performance by counter-parties to derivative financial instruments, but it does not expect any counter parties to fail to meet their obligations given their high credit ratings.

The Corporation sells products to customers primarily in Canada, the United States, Europe and Asia. The Corporation performs ongoing credit evaluations of customers and generally does not require collateral. Allowances are maintained for potential credit losses. It is reasonably possible that the actual amount of loss, if any, incurred on trade receivables will differ from management's estimate.

The foreign trade receivables of the Canadian operation are guaranteed by the Export Development Corporation Canada ("EDC") and the Corporation's customer base comprises of many geographically dispersed customers.

One customer accounted for 13% of sales for the period ended October 31, 2006 (2005 – 41%) and 25% of trade receivables as at October 31, 2006 (April 30, 2006 – 43%).

5. CREDIT FACILITIES

The Corporation has a credit facility with a major Canadian Charter bank, which provides an outstanding \$347,000 term facility. The Corporation was not in compliance with the financial covenant of this facility as at October 31, 2006. As a result, the Corporation has reclassified the long-term portion of the term facility in the amount of \$139,000 to current.

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6. SHARE CAPITAL

Unlimited number of preferred shares issuable in series and subject to such conditions as may be determined by the Board of Directors.

Unlimited number of common shares.

Issued and outstanding common shares

	As at October 31, 2006		As at April 30, 2006	
	Number	\$	Number	\$
Balance, beginning of the period	76,405,263	116,357	76,405,263	116,357
Change during the period:				
Issued for cash (net of issue costs of \$357)	78,479,181	7,141	—	—
Balance, end of the period	154,884,444	123,498	76,405,263	116,357

Warrants

	As at October 31, 2006		As at April 30, 2006	
	Number	\$	Number	\$
Balance, beginning of the period	—	—	3,077,132	1,129
Changes during the period:				
Issued for cash (net of issue costs of \$40)	8,750	310	—	—
Expired	—	—	(3,077,132)	(1,129)
Balance, end of the period	8,750	310	—	—

On October 8, 2006, the Corporation issued 43,479,181 common shares under a rights offering at a price of \$0.10 per share. The aggregate gross proceeds raised from the offering were \$4.3 million and were reduced by the issue costs of \$198,000.

On October 9, 2005, the warrants expired and the value associated with these warrants was transferred to contributed surplus.

On October 18, 2006, the Corporation issued 35,000,000 common shares and 8,750,000 warrants under a private placement. Each warrant entitles the holder to acquire one additional common share of the Corporation at a price of \$0.10 on or prior to October 17, 2008. The aggregate gross proceeds raised from the private placement were \$3.5 million and were reduced by the issue costs of \$199,000. The 8,750,000 warrants have been value at \$310,000 net of issue costs of \$40,000 using the Black-Scholes options pricing model, which assumes an expected life of two years, volatility of 81%, risk-free interest rate of 4.5% and no dividend yield, adjusted to account for the warrants limited liquidity. The balance has been allocated to common shares.

For the periods ending July 31, 2006 and 2005, the effect of stock options and warrants potentially exercisable on the loss per common share was anti-dilutive, therefore basic and diluted loss per share are the same.

Stock options plan

The following table shows a continuity of the options outstanding and the weighted average exercise price:

	As at October 31, 2006	
	Number	\$
Balance, beginning of the period	2,403,500	1.76
Granted	4,625,000	0.13
Forfeited	(188,600)	1.36
Expired	(119,450)	6.50
Balance, end of the period	6,720,450	0.57
Options exercisable, end of the period	2,942,633	1.06

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6. SHARE CAPITAL (continued)

Additional information concerning stock options outstanding as of October 31, 2006 is as follows:

Exercise price	Options outstanding			Options exercisable		
	Number	Weighted average exercise price \$	Weighted average year to expiry	Number	Weighted average exercise price \$	
\$0.11 to \$0.18	3,425,000	0.11	4.9	856,250	0.11	
\$0.19 to \$0.30	1,200,000	0.19	4.8	300,000	0.19	
\$0.31 to \$0.82	1,065,000	0.39	6.5	848,334	0.41	
\$0.83 to \$2.10	746,750	1.77	5.5	654,349	1.77	
\$2.11 to \$3.90	71,500	3.57	3.7	71,500	3.57	
\$3.91 to \$4.90	81,200	4.59	3.9	81,200	4.59	
\$4.91 to \$6.50	100,000	5.95	2.9	100,000	5.95	
\$6.51 to \$9.50	31,000	7.86	1.0	31,000	7.86	
	6,720,450	0.57	5.2	2,942,633	1.06	

Contributed surplus

	As at October 31, 2006 \$	As at April 30, 2006 \$
Balance, beginning of the period	8,126	6,154
Changes during the period:		
Stock-based compensation expense	432	843
Warrants which expired during the period	—	1,129
Balance, end of the period	8,558	8,126

7. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital balance related to continuing operations are:

	For the three months ended October 31,		For the six months ended October 31,	
	2006	2005	2006 \$	2005 \$
Trade receivable and other receivables	1,248	1,926	3,738	5,747
Inventories	(654)	27	(1,017)	2,460
Prepaid expenses and other	150	(29)	(113)	(9)
Income tax recoverable	(81)	(67)	107	(331)
Accounts payable and accrued liabilities	(738)	(1,217)	(1,009)	(4,254)
	(75)	640	1,706	3,613

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7. SUPPLEMENTARY CASH FLOW INFORMATION (continued)

	For the three months ended		For the six months ended	
	2006	2005	2006	2005
	\$	\$	\$	\$
Interest paid	44	151	159	264
Amortization of property, plant and equipment is included in:				
Cost of sales	298	315	569	652
Selling and administrative expenses	106	161	234	341
	404	476	803	993
Amortization of intangible assets is including in:				
Cost of sales	—	44	—	97
Selling and administrative expenses	398	525	895	1,050
	398	569	895	1,147
Amortization of deferred charges is included in:				
Cost of sales	122	122	245	245
Selling and administrative expenses	63	63	125	125
Research and development expenses	30	89	61	178
	215	274	431	548

8. SEGMENTED INFORMATION

[a] Segmented information used by management

Mitec operates its business into two principal operating segments for making management decisions and assessing performance. The operating segments are Telecommunications ("Telecom"), and Satellite and Terrestrial Communications ("Satcom"). The Corporation currently operates in Canada, the United States and China.

Telecom is involved in research, design, development, manufacturing and sale of components, subsystems and multifunction subsystems for the wireless and cellular markets.

Satcom is involved in research, design, development, manufacturing and sale of components, subsystems and multifunction subsystems for satellite and VSAT earth stations.

Management calculates segment performance based on gross profit, as other expenses cannot be allocated to individual segments. In addition, the segments share certain inventory and some capital assets.

Information pertaining to each segment for the three-month periods ended October 31 is as follows:

	Telecom		Satcom		Consolidated amounts	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Sales	3,206	4,544	5,632	4,974	8,838	9,518
Cost of sales	3,233	5,369	3,825	3,514	7,058	8,883
Gross profit (loss)	(27)	(825)	1,807	1,460	1,780	635
Expenses					6,102	5,572
Income tax recovery					(67)	(149)
Loss from continuing operations					(4,255)	(4,788)
Discontinued operations					—	53
Net loss for the period					(4,255)	(4,735)

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8. SEGMENTED INFORMATION (continued)

Information pertaining to each segment for the six-month periods ended October 31

	Telecom		Satcom		Consolidated amounts	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Sales	7,277	12,906	10,237	9,904	17,514	22,810
Cost of sales	8,234	13,516	7,312	6,999	15,546	20,515
Gross profit (loss)	(957)	(610)	2,925	2,905	1,968	2,295
Expenses					10,825	12,560
Income tax recovery					(181)	(298)
Loss from continuing operations					(8,676)	(9,967)
Discontinued operations					(8)	(30)
Net loss for the period					(8,684)	(9,997)

(b) Enterprise-wide information

The following table presents sales based on geographic location of production.

	For the three months ended		For the six months ended	
	October 31,		October 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Sales				
Canada	6,388	9,181	11,806	20,803
United States	162	352	313	719
China	2,546	2,419	5,810	5,976
Inter-country	(258)	(2,434)	(415)	(4,688)
	8,838	9,518	17,514	22,810

The following table presents sales by destination of product

	For the three months ended		For the six months ended	
	October 31,		October 31,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Canada	209	1,101	413	2,401
United States	4,665	3,653	7,726	7,393
Europe	1,215	2,192	3,539	7,806
Asia	2,085	1,873	4,541	3,973
Other	664	699	1,295	1,237
	8,838	9,518	17,514	22,810
Amortization of property, plant and equipment				
Telecom	271	391	555	740
Satcom	133	85	248	253
	404	476	803	993
Amortization of intangible assets				
Telecom	289	449	677	915
Satcom	109	120	218	232
	398	569	895	1,147

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9. FINANCIAL EXPENSES

	For the three months ended		For the six months ended	
	2006	October 31, 2005	2006	October 31, 2005
	\$	\$	\$	\$
Interest on bank indebtedness	6	70	83	142
Interest on long-term debt	38	45	76	90
Foreign exchange	77	174	110	542
Bank charges and other fees	11	22	31	67
	132	311	300	841